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GRANBY

MINING COMPANY LIMITED

1971

71st ANNUAL REPORT



View of the plant and open-pit mine of Granisle Copper Limited.

DIRECTORS

T. G. Ewart
W. H. Flynn
J. B. Harrison
A. H. Hauser
W. F. James
R. C. Lassiter
P. R. Matthew
G. T. Smith
R. M. Sutherland, Q.C.

OFFICERS

| | |
|---------------|-------------------------|
| W. H. Flynn | Chairman of the Board |
| P. R. Matthew | President |
| J. H. Colton | Secretary and Treasurer |
| W. G. Gourlay | Assistant Secretary |
| J. D. Balden | Assistant Treasurer |

TRANSFER AGENTS

The Canada Trust Company,
Vancouver, British Columbia
The Canada Trust Company, Toronto, Ontario
Chemical Bank, New York, N.Y.

REGISTRARS

National Trust Company, Limited,
Vancouver, British Columbia
National Trust Company, Limited, Toronto, Ontario
The Chase Manhattan Bank, N.A., New York, N.Y.

SHARES LISTED

New York Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

THE GRANBY MINING COMPANY LIMITED

To the Shareholders:

The Seventy-first Annual Report of your Company is presented herewith.

Combined production of copper from the Phoenix and Granisle mines in the nine months ended September 30, 1971, was slightly higher than in the same period of 1970. Substantially lower world copper prices, the negative effect of the increased exchange value of the Canadian dollar, and higher production costs, resulted in lower earnings. Net Income for the nine months in 1971, before extraordinary items, was \$978,148, or \$.68 per share, down from \$3,418,006, or \$2.37 per share for the same period in 1970 (unaudited).

Ore reserves at the Phoenix mine are calculated at 1.1 million tons with an average grade of 0.78%

copper that can be mined at an ore to waste ratio of 1 : 2.7. In addition, there is a low-grade stockpile of about 3.5 million tons containing 0.40% copper that can be treated, dependant on favourable copper prices, at a relatively lower profit after the ore reserves are exhausted.

A one-year contract has been signed with the Unions representing the employees at the Phoenix mine. This agreement calls for an increase in wages of 5.2%.

A three-year agreement has been reached with the Sumitomo group in Japan for the sale of the Phoenix concentrate production. Terms of the new agreement are less favourable to your Company, largely due to economic conditions in Japan.

Production statistics of the Phoenix Copper Division of The Granby Mining Company Limited are as follows:—

| | Nine Months Ended September 30 | | Year |
|-------------------------------------------|-----------------------------------|-----------|------------|
| | 1971 | 1970 | 1970 |
| Tons Ore Treated | 667,857 | 630,965 | 862,156 |
| Average Tons Treated per Day | 2,446 | 2,311 | 2,362 |
| Copper Content (%)..... | 0.77 | 0.78 | 0.77 |
| Tons Waste Removed | 3,322,906 | 3,496,548 | 4,570,812 |
| Saleable Metal Produced: | | | |
| Copper (Lbs.)..... | 8,974,699 | 8,076,430 | 11,019,611 |
| Gold (Ounces)..... | 10,113 | 8,491 | 11,827 |
| Silver (Ounces)..... | 90,265 | 95,469 | 123,046 |
| Average Copper Price Received per Lb..... | 47.1¢ | 65.7¢ | 60.6¢ |

Details of production at Granisle Copper Limited are as follows:—

| | Nine Months Ended September 30 | | Year |
|-------------------------------------------|-----------------------------------|------------|------------|
| | 1971 | 1970 | 1970 |
| Tons Ore Treated | 1,716,614 | 1,764,355 | 2,391,161 |
| Average Tons Treated per Day | 6,288 | 6,463 | 6,551 |
| Copper Content (%)..... | 0.55 | 0.56 | 0.55 |
| Tons Waste Removed | 1,916,668 | 1,375,550 | 1,621,221 |
| Saleable Metal Produced: | | | |
| Copper (Lbs.)..... | 16,286,949 | 17,029,438 | 22,791,847 |
| Gold (Ounces)..... | 7,655 | 7,871 | 10,545 |
| Silver (Ounces)..... | 73,642 | 70,080 | 94,777 |
| Average Copper Price Received per Lb..... | 47.6¢ | 64.8¢ | 58.6¢ |

Ore reserves at Granisle are calculated to be 87.6 million tons at 0.44% copper that can be mined at an ore to waste ratio of 1 : 1.2.

The program for increasing the Granisle plant capacity from 6,500 to 14,000 tons per day is proceeding on schedule, with completion expected in September, 1972.

The present agreement with the Union representing the Granisle employees expires on December 31, 1971. Negotiations with the Union for a new agreement are under way.

During the year, exploration for new mining properties was continued in British Columbia and through syndicate participation in other parts of Canada. The program of intensive investigation of the area around the Phoenix mine is nearing completion; to date results have been negative. Further work is warranted on other British Columbia prospects and will be carried out as weather conditions permit.

On August 26, 1971, Zapata Norness Incorporated of Houston, Texas, acquired, through its wholly-owned British Columbia subsidiary, Zapata Resources Limited, the holding of 733,050 shares of capital stock (approximately 50.75%) of The Granby Mining Company Limited previously owned by Pacific Holding Corporation of Los Angeles, California. Zapata Norness Incorporated is a United States corporation organized in 1954 under the laws of the State of Delaware. The company is engaged directly, or through subsidiaries, in international bulk shipping, offshore drilling of oil and gas wells, furnishing cargo boat services for offshore contractors, manufacturing of fish meal and oil, construction, and development of natural resources. Zapata Norness is a listed company on the New York and Pacific Coast Stock Exchanges.

The following changes in Directors and Officers have taken place since the Annual General Meeting held on April 22, 1971.

Messrs. W. M. Colley, J. E. Cross, W. G. Lane, J. H. McCarthy, E. K. Mack, and R. R. Woolcott have resigned as Directors; Mr. Woolcott has also resigned as Chairman of the Board, and Mr. Colley has resigned as Vice-President.

Messrs. W. H. Flynn, J. B. Harrison, R. C. Lassiter and R. M. Sutherland, Q.C., have been elected to the Board; Mr. Flynn has been appointed Chairman of the Board of Granby.

Mr. Flynn is Chairman of the Board and Chief Executive Officer of Zapata; Mr. Harrison is President and Chief Operating Officer for Zapata; Mr. Lassiter is Executive Vice-President, Natural Resources, of Zapata. R. M. Sutherland, Esq., Q.C., is a Senior Partner in the law firm of Fasken & Calvin, Toronto, Ontario.

At a Directors' Meeting held on November 3, 1971, it was decided to change the Company's fiscal year-end from December 31 to September 30, commencing September 30, 1971, in order to coincide with the year-end of Zapata Norness Incorporated.

The Annual General Meeting of the Company will be held in the Hotel Vancouver, Vancouver, British Columbia, at 11:00 a.m., on Thursday, January 27, 1972.

The Directors wish to acknowledge the continued efforts and co-operation of all employees.

On behalf of the Board,

P. R. MATTHEW,
President.

Vancouver, British Columbia
December 16, 1971.

CONSOLIDATED BALANCE SHEET

ASSETS

| | September 30, | | December 31, |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|-------------------|
| | 1971 | 1970 (unaudited) | 1970 |
| Current assets: | | | |
| Cash and short-term deposits | \$13,178,893 | 13,371,029 | 13,145,876 |
| Investments at market value, (in 1970 at cost, market value \$4,648,733 September 30, 1970 and \$4,607,895 December 31, 1970) (Note 8) | 1,228,440 | 4,648,035 | 4,430,127 |
| Accounts receivable | 278,410 | 216,744 | 135,675 |
| Metals in concentrates, at estimated realizable value .. | 4,040,911 | 2,130,887 | 2,442,571 |
| Materials and supplies, at cost | 1,350,593 | 1,130,053 | 1,221,445 |
| Prepaid expenses | 100,884 | 161,572 | 35,667 |
| Total current assets | 20,178,131 | 21,658,320 | 21,411,361 |
| Refundable deposits and sundry assets | 499,736 | 585,024 | 499,736 |
| Property, plant and equipment, at cost (Note 3) | 26,087,141 | 23,845,236 | 24,180,466 |
| Less accumulated depreciation and depletion | 9,289,376 | 7,249,690 | 7,821,279 |
| | 16,797,765 | 16,595,546 | 16,359,187 |
| Deferred charges, less amortization: | | | |
| Mine development and pre-production expenditure (Note 3) | 59,017 | 536,983 | 417,487 |
| Retirement plan contribution | 257,392 | 280,332 | 274,552 |
| | 316,409 | 817,315 | 692,039 |
| | <u>\$37,792,041</u> | <u>39,656,205</u> | <u>38,962,323</u> |

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

| | September 30, 1971 | 1970 (unaudited) | December 31, 1970 |
|---------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------|----------------------|
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 1,384,563 | 1,134,901 | 842,207 |
| Income taxes payable | 5,676 | 1,300,717 | 824,717 |
| Total current liabilities | 1,390,239 | 2,435,618 | 1,666,924 |
| Deferred income taxes (Note 4) | 878,000 | 293,000 | 365,000 |
| Minority interest in subsidiary | 6,211,411 | 7,259,755 | 6,924,743 |
| Shareholders' equity (Notes 5 and 6): | | | |
| Capital stock: | | | |
| Authorized 6,000,000 shares par value \$1.66-2/3 per share; issued and outstanding 1,444,371 shares | 2,407,285 | 2,407,285 | 2,407,285 |
| Contributed surplus, per accompanying statement . . . | 1,241,502 | 1,241,502 | 1,241,502 |
| Retained earnings, per accompanying statement | 25,663,604 | 26,019,045 | 26,356,869 |
| Total shareholders' equity | 29,312,391 | 29,667,832 | 30,005,656 |
| Commitments and contingent liability (Notes 11 and 12). | | | |
| | <u>\$37,792,041</u> | <u>39,656,205</u> | <u>38,962,323</u> |

On behalf of the Board:

WILLIAM H. FLYNN, Director

P. R. MATTHEW, Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Granby Mining Company Limited and subsidiaries as of September 30, 1971 and the consolidated statements of earnings, retained earnings and contributed surplus and source and application of funds for the nine months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at September 30, 1971 and the results of their operations and the source and application of their funds for the nine months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
November 29, 1971

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

| | Nine months ended September 30, | | Year ended December 31, |
|-----------------------------------------------------------------------|------------------------------------|---------------------|----------------------------|
| | 1971 | 1970 (unaudited) | 1970 |
| Value of production of copper, gold and silver | \$11,985,240 | 16,382,958 | 19,966,102 |
| Cost of production | 7,020,854 | 6,763,114 | 9,025,257 |
| Depreciation, depletion and amortization | 1,884,914 | 1,811,545 | 2,502,938 |
| Outside exploration | 541,169 | 509,770 | 639,247 |
| Administration | 618,136 | 476,433 | 728,993 |
| Loss on U.S. exchange (Note 7) | — | 634,406 | 634,406 |
| | <u>10,065,073</u> | <u>10,195,268</u> | <u>13,530,841</u> |
| Operating profit | 1,920,167 | 6,187,690 | 6,435,261 |
| Investment and other income | <u>560,937</u> | <u>1,162,243</u> | <u>1,506,303</u> |
| Earnings before income taxes and minority interest | 2,481,104 | 7,349,933 | 7,941,564 |
| Provision for Income taxes (Note 4): | | | |
| Current | 590,000 | 2,156,000 | 2,025,000 |
| Deferred | <u>513,000</u> | <u>56,000</u> | <u>128,000</u> |
| | <u>1,103,000</u> | <u>2,212,000</u> | <u>2,153,000</u> |
| Earnings before minority interest in net earnings of subsidiary | 1,378,104 | 5,137,933 | 5,788,564 |
| Minority interest in net earnings of subsidiary | <u>399,956</u> | <u>1,719,927</u> | <u>1,948,299</u> |
| Earnings before extraordinary items | 978,148 | 3,418,006 | 3,840,265 |
| Extraordinary items (Note 8) | <u>82,956</u> | <u>—</u> | <u>504,688</u> |
| Net earnings for the period (Note 10) | <u>\$ 1,061,104</u> | <u>3,418,006</u> | <u>4,344,953</u> |
| Per share earnings: | | | |
| Net earnings before extraordinary items | \$.68 | 2.37 | 2.66 |
| Extraordinary items | <u>.05</u> | <u>—</u> | <u>.35</u> |
| Net earnings for the period | <u>\$.73</u> | <u>2.37</u> | <u>3.01</u> |
| Cash dividends per share in U.S. dollars | <u>\$ 1.20</u> | <u>1.20</u> | <u>1.60</u> |
| Number of shares outstanding | <u>1,444,371</u> | <u>1,444,371</u> | <u>1,444,371</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND CONTRIBUTED SURPLUS

| | Nine months ended September 30, | | Year ended December 31, |
|-----------------------------------------------|------------------------------------|---------------------|----------------------------|
| | 1971 | 1970 (unaudited) | 1970 |
| Retained earnings: | | | |
| Balance at beginning of period | \$26,356,869 | 24,428,890 | 24,428,890 |
| Add net earnings for the period | <u>1,061,104</u> | <u>3,418,006</u> | <u>4,344,953</u> |
| | 27,417,973 | 27,846,896 | 28,773,843 |
| Deduct cash dividends | <u>1,754,369</u> | <u>1,827,851</u> | <u>2,416,974</u> |
| Balance at end of period | <u>\$25,663,604</u> | <u>26,019,045</u> | <u>26,356,869</u> |
| Contributed surplus: | | | |
| Balance unchanged during the period | \$ 1,241,502 | 1,241,502 | 1,241,502 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

| | Nine months ended September 30, | | Year ended December 31, |
|----------------------------------------------------------------------------------------------|------------------------------------|---------------------|----------------------------|
| | 1971 | 1970 (unaudited) | 1970 |
| Funds provided by: | | | |
| Operations: | | | |
| Net earnings for the period | \$ 1,061,104 | 3,418,006 | 4,344,953 |
| Depreciation, depletion and amortization | 1,884,914 | 1,811,545 | 2,502,938 |
| Deferred income taxes | 513,000 | 56,000 | 128,000 |
| Other | <u>23,175</u> | <u>(141,623)</u> | <u>(134,819)</u> |
| Funds provided by operations | 3,482,193 | 5,143,928 | 6,841,072 |
| Disposal of property, plant and equipment | <u>34,280</u> | <u>507,026</u> | <u>507,341</u> |
| Total funds provided | <u>3,516,473</u> | <u>5,650,954</u> | <u>7,348,413</u> |
| Funds applied to: | | | |
| Purchase of property, plant and equipment | 1,920,280 | 2,561,402 | 2,766,516 |
| Excess cost on acquisition of shares in subsidiary, allocated to mineral claims | 85,037 | 3,276,836 | 3,408,599 |
| Decrease in minority interest in subsidiary | 713,332 | 2,118,256 | 2,453,268 |
| Dividends paid | 1,754,369 | 1,827,851 | 2,416,974 |
| Increase (decrease) in other assets | <u>—</u> | <u>70,000</u> | <u>(15,288)</u> |
| Total funds applied | <u>4,473,018</u> | <u>9,854,345</u> | <u>11,030,069</u> |
| Decrease in working capital | (956,545) | (4,203,391) | (3,681,656) |
| Working capital at beginning of period | <u>19,744,437</u> | <u>23,426,093</u> | <u>23,426,093</u> |
| Working capital at end of period | <u>\$18,787,892</u> | <u>19,222,702</u> | <u>19,744,437</u> |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements September 30, 1971

- 1. Principles of consolidation:** The accompanying consolidated financial statements include the accounts of The Granby Mining Company Limited and subsidiaries, Granisle Copper Limited and certain inactive companies, after elimination of all significant inter-company items and transactions. During 1971 the company increased its share ownership of Granisle Copper Limited from 66.8% to 67.4%. The financial statements of a subsidiary, Jedway Iron Ore Limited, have not been consolidated as its mining operations have ceased and the investment therein is considered to have no value.
- 2. Conversion of United States currency:** Current assets in United States dollars have been converted into Canadian dollars at the rate of exchange prevailing at the respective balance sheet dates.
- 3. Property, plant and equipment:** Particulars of the cost of property, plant and equipment are as follows:

| | September 30, 1971 | 1970 (unaudited) | December 31, 1970 |
|--------------------------------|-----------------------|---------------------|----------------------|
| Mineral claims..... | \$ 5,215,604 | 4,998,804 | 5,130,567 |
| Land..... | 78,018 | 62,553 | 71,978 |
| Mine buildings and equipment.. | 15,293,796 | 13,563,159 | 13,758,061 |
| Mobile and other equipment.... | 5,499,723 | 5,220,720 | 5,219,860 |
| | <u>\$26,087,141</u> | <u>23,845,236</u> | <u>24,180,466</u> |

The excess of cost of shares in a subsidiary, Granisle Copper Limited, over net book value at time of acquisition of \$5,002,698 (\$4,785,898 at September 30, 1970 and \$4,917,661 at December 31, 1970) has been allocated to mineral claims which are being amortized on the basis of the proportion of the production of ore to the estimated ore reserves of the Granisle mine.

Depreciation and depletion of the company's Phoenix mine buildings and equipment and mineral claims is designed to amortize the written down value of these assets at December 31, 1969 and the cost of subsequent additions by December 31, 1973. Depreciation of Granisle's mine buildings and equipment, is calculated on the straight-line method at 8% of cost. No depreciation has been provided on plant under construction. Depreciation of all mobile equipment is calculated on the diminishing balance method at 30%.

Amortization of the pre-production expenditure of the Granisle mine is calculated on the straight-line method at 20% and the balance of these costs will be fully amortized by November 30, 1971.

- 4. Income taxes:** The depreciation and amortization which will be claimed for income tax purposes will exceed the amount recorded in the accounts and accordingly a provision has been made for the income taxes which have been deferred. The company's subsidiary, Granisle Copper Limited, had provided depreciation and amortization during its tax-free period which did not have to be claimed for income tax purposes, and as a result, the consolidated provision for deferred income taxes for the nine months ended September 30, 1970 and the year ended December 31, 1970 has been reduced by \$1,080,000 and \$1,390,000 respectively.
- 5. Capital stock:** Under the company's "Restricted Stock Option Plan", dated January 13, 1960 100,000 shares of The Granby Mining Company Limited stock were reserved for the granting of options to key employees, the purchase price per share being 10% above the market value at the date of the grant. The options are for a term of ten years from the date of the grant, and there are certain limitations on the number of shares that can be acquired in the first five years. No options were granted in 1971. An option on 2,000 shares at \$38.23 U.S. per share was outstanding at September 30, 1971 and December 31, 1970. Unallocated shares under the plan totalled 54,400 shares at September 30, 1971.
- 6. Retained earnings:** The company acquired control of Granisle Copper Limited in 1969. Under the provisions of the Federal Income Tax Act, the retained earnings, as defined, of this subsidiary at the time of acquisition which were approximately \$8,360,000, became a "designated surplus" for income tax purposes. At September 30, 1971, the company's share of this designated surplus amounted to approximately \$5,630,000. If all, or part, of this amount is distributed by Granisle Copper Limited to the company, income taxes of approximately 50% would be payable on the amount received.
- 7. Loss on U.S. exchange:** On May 31, 1970, the Canadian dollar was unpegged and the effect of this revaluation was to reduce the value of the consolidated current assets in U.S. dollars at that date by \$634,406.

8. Extraordinary items: Extraordinary items comprise in 1971 a gain on the sale of an investment of \$465,028 less an amount of \$382,072 which was required to write down the cost of marketable investments to their market value at September 30, 1971. In 1970 a gain of \$504,688 was realized on the disposal of mineral claims.

9. Administration: Remuneration of directors and senior officers (as defined in the British Columbia Securities Act) for the nine months ended September 30, 1971, amounted to \$240,995 (\$280,243 in the year ended December 31, 1970).

10. Net earnings: Operating results for a nine month period are not necessarily indicative of results for a calendar year due mainly to fluctuations in the price of copper.

A reconciliation of unaudited consolidated net earnings for the nine months ended September 30, 1970 as originally reported to the shareholders with the restated unaudited net earnings is as follows:

| | |
|--------------------------------------------------------------------------------------------|--------------------|
| Unaudited net earnings as originally reported | \$3,283,187 |
| Less reduction in amortization of excess cost of acquisition of shares in subsidiary | 134,819 |
| Unaudited net earnings as restated | <u>\$3,418,006</u> |

11. Commitments: The company's subsidiary, Granisle Copper Limited, is expanding its mining facilities at Babine Lake, British Columbia, at an estimated cost of \$8,700,000. At September 30, 1971, total expenditure incurred on this expansion was \$1,663,842 and capital commitments amounted to approximately \$3,000,000.

12. Contingent liability: The decision of the Court of Appeal of British Columbia on the appeals taken by The Granby Mining Company Limited and Jedway Iron Ore Limited from the Judgment that was obtained by Silver Standard Mines Ltd. (N.P.L.) in the amount of \$10,265 and costs was pronounced on February 23, 1971. That decision sustained the said Judgment for \$10,265 but dismissed the claim of Silver Standard Mines Ltd. (N.P.L.) for the rectification of the agreement entered into between The Granby Mining Company Limited, Jedway Iron Ore Limited and Silver Standard Mines Ltd. (N.P.L.) that is dated January 20, 1961. Since then the Judgment for \$10,265 has been satisfied by Jedway Iron Ore Limited but as yet the costs to which Silver Standard Mines Ltd. (N.P.L.) is entitled and the costs to which The Granby Mining Company Limited and Jedway Iron Ore Limited are entitled with respect to the said claim for rectification has not been settled.

On September 3, 1971, Silver Standard Mines Ltd. (N.P.L.) commenced action in the Supreme Court of British Columbia against The Granby Mining Company Limited and Jedway Iron Ore Limited claiming the sum of \$130,898 for interest on the sum of \$670,454 at 6% per annum throughout the period April 1, 1968 to June 30, 1971, interest on the said sum of \$130,898 at a rate which is undisclosed, and costs.

On the recommendation of Counsel, The Granby Mining Company Limited and Jedway Iron Ore Limited are defending the said action on the ground that the obligation on the part of Jedway Iron Ore Limited terminated as of the date upon which Jedway Iron Ore Limited ceased its mining operations. In the event Silver Standard Mines Ltd. (N.P.L.) is successful in this action, then Jedway Iron Ore Limited, in addition to being liable to make payment of the amounts claimed, will have a liability which obligates it to pay to Silver Standard Mines Ltd. (N.P.L.) the sum of \$10,265 at the end of each calendar quarter occurring after June 30, 1971 unless it pays to Silver Standard Mines Ltd. (N.P.L.) the sum of \$670,454 (the payment of which said sum of \$670,454 is not required to be made), and also means that if Jedway Iron Ore Limited defaults (an event which is likely to occur) The Granby Mining Company Limited, as guarantor, must assume that payment and liability. In effect, therefore, if Silver Standard Mines Ltd. (N.P.L.) is successful there will be a continuing liability to pay to it interest at 6% per annum on \$670,454 unless either The Granby Mining Company Limited or Jedway Iron Ore Limited elect to make payment of the said sum of \$670,454.

No provision has been made in the accounts for the amounts that may become payable as a result of the said action commenced September 3, 1971. However, at September 30, 1971, Jedway Iron Ore Limited, which is not consolidated, had cash on hand of approximately \$159,000.

13. Comparative figures: The consolidated financial statements for the year ended December 31, 1970, as previously reported, have been restated where applicable to conform with the presentation used in the current period.

